CORRECTED FISCAL NOTE

SB 190 – HB 1145

March 8, 2007

SUMMARY OF BILL: Exempts clothes washers, air conditioners, refrigerators, programmable thermostats, lighting fixtures, and incandescent or fluorescent light bulbs from state sales and use tax, when the cost of such any such item is $1,500 or less and has been designated as energy efficient item.

ESTIMATED FISCAL IMPACT:

On February 15, 2007, we issued a fiscal note for this bill indicating a *decrease to state revenues of $40,100,000* and a *net decrease to local government revenues of $15,400,000.* Based on new information, the fiscal impact of this bill is estimated as follows:

(CORRECTED)
Decrease State Revenues – $12,154,000 / General Fund
$27,258,000 / Education Fund
$154,000 / Department of Revenue
$385,000 / Sinking Fund

Decrease Local Govt. Revenues – $1,923,000

Assumptions for energy efficient appliances:

- "Energy efficient item" means an item that has been designated by the U.S. Environmental Protection Agency or by the U.S. Department of Energy as meeting or exceeding the agency's energy saving efficiency requirements or that has been designated as meeting or exceeding the requirements under the Energy Star Program of either agency.
- "Air conditioners" meeting the $1,500 price threshold are synonymous with "room air conditioners."
- According to the Association of Home Appliance Manufacturers, national sales in 2007 for automatic washers, room air conditioners, and refrigerators are estimated to be 9,850,000 units, 8,351,000 units, and 11,775,000 units respectively (29,976,000 units total).
- Total units estimated include household and business purchases.
- 80% of automatic washers priced $1,500 or less (7,880,000 units).
- 90% of room air conditioners priced $1,500 or less (7,516,000 units).

- 60% of refrigerators priced $1,500 or less (7,065,000 units).
- 90% of new appliances are designated as energy efficient.
- Adjusted number of units sold nationally meeting the $1,500 threshold and the energy efficient criteria is estimated to be 20,215,000.
- U.S. Census Bureau estimates the national population at approximately 301.1 million and Tennessee's population at approximately 6.04 million.
- Tennessee represents 2.0% of national population (301.1 million ÷ 6.04 million = 2.0%).
- 2.0% of national appliance sales (or 405,000 units) are estimated to be made in Tennessee.
- Of the 405,000 total units estimated to be sold in Tennessee, 35% (or 141,750) are automatic washers, 33% (or 133,650) are room air conditioners, and 32% (or 129,600) are refrigerators.
- The average price of automatic washers, room air conditioners, and refrigerators are estimated to be $700, $400, and $1,200 respectively.
- Taxable sales for automatic washers are estimated to be $99,225,000 (141,750 X $700 = $99,225,000).
- Taxable sales for room air conditioners are estimated to be $53,460,000 (133,650 X $400 = $53,460,000).
- Taxable sales for refrigerators are estimated to be $155,520,000 (129,600 X $1,200 = $155,520,000).
- Total taxable sales for automatic washers, room air conditioners, and refrigerators for households and businesses meeting the criteria of this bill are estimated to be $308,205,000 per year.
- The decrease to state revenues resulting from authorized exemptions for the qualified appliances is estimated to be $21,574,000 per year ($308,205,000 X 7% state rate = $21,574,350).
- Of the estimated $21,574,000 total state decrease, $6,946,000 is estimated to be from exemptions on automatic washers; $3,742,000 from exemptions on room air conditioners; and $10,886,000 from exemptions on refrigerators.

Assumptions for energy efficient thermostats and lighting equipment:

- According to the Department of Revenue, approximately 40,000 new homes are built in Tennessee each year.
- Each new home is built with approximately $1,000 worth of eligible programmable thermostats and/or lighting fixtures.
- 2,000,000 total households in Tennessee.
- 10% of existing households purchase approximately $300 worth of programmable thermostats and/or new lighting fixtures each year.
- Taxable sales for programmable thermostats and light fixtures for Tennessee households are estimated to be $100,000,000 per year ([40,000 new homes X $1,000 = $40,000,000] + [200,000 households X $300 = $60,000,000] = $100,000,000).

- Taxable sales of eligible thermostats and lighting fixtures purchased by Tennessee businesses are estimated to be 100% of household sales.
- Adjusted taxable sales for all eligible thermostats and lighting fixtures sold in Tennessee to households and businesses are estimated to be $200,000,000 per year.
- The decrease to state revenues resulting from authorized exemptions on thermostats and lighting equipment is estimated to be $14,000,000 per year ($200,000,000 X 7% state rate = $14,000,000).

Assumptions energy efficient incandescent or fluorescent light bulbs:

- 30% of all households use incandescent or fluorescent light bulbs (or 600,000 households).
- Average household spends $75 per year on light bulbs.
- Taxable sales for light bulbs are estimated to be $45,000,000 (600,000 households X $75 = $45,000,000).
- Taxable sales of eligible incandescent or fluorescent light bulbs purchased by Tennessee businesses are estimated to be 100% of household sales.
- Adjusted taxable sales for all eligible incandescent or fluorescent light bulbs sold in Tennessee are estimated to be $90,000,000 per year.
- The decrease to state revenues resulting from authorized exemptions on incandescent or fluorescent light bulbs is estimated to be $6,300,000 per year ($90,000,000 X 7% state rate = $6,300,000).

All Other Assumptions:

- The decrease to state sales tax revenue is estimated to be $41,874,000 per year ($21,574,000 + $14,000,000 + $6,300,000 = $41,874,000).
- Local governments are allocated a 4.5925% share of state sales tax revenue. As a result, local governments would lose approximately $1,923,000 in state-shared sales tax revenue.
- The net recurring decrease to state revenues is estimated to be $39,951,000 per year ($41,874,000 total - $1,923,000 local share = $39,951,000).
- The $39,951,000 would have been apportioned as follows: $12,154,000 to the General Fund, $27,258,000 to the Education Fund, $154,000 to the Department of Revenue, and $385,000 to the Sinking Fund.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James W. White, Executive Director

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(CORRECTED)